

COASTAL CONSERVANCY

Staff Recommendation
October 27, 2005

SUSTAINABLE FISHERIES REVOLVING LOAN FUND

File No. 05-069
Project Manager: Marina Cazorla

RECOMMENDED ACTION: Authorization to disburse up to \$101,300 to Environmental Defense for conceptual and business planning for a statewide Sustainable Fisheries Revolving Loan Fund.

LOCATION: Coastal zone statewide

PROGRAM CATEGORY: Integrated Coastal and Marine Resources Protection

EXHIBITS

Exhibit 1: Backgrounder on Financing Sustainable Development

Exhibit 2: Example of a Fisheries RLF Potential Investment

Exhibit 3: Letters of Support

RESOLUTION AND FINDINGS:

Staff recommends that the State Coastal Conservancy adopt the following resolution pursuant to Section 31220 of the Public Resources Code:

“The State Coastal Conservancy hereby authorizes disbursement of an amount not to exceed one hundred one thousand three hundred dollars (\$101,300) to Environmental Defense for conceptual and business planning for a statewide Sustainable Fisheries Revolving Loan Fund, subject to the condition that prior to disbursement of Conservancy funds, Environmental Defense shall submit for the review and written approval of the Executive Officer of the Conservancy: a detailed work program, schedule, and budget; the name and qualifications of any contractors to be employed in carrying out the project; and evidence that all other funds necessary to complete the project have been obtained.”

Staff further recommends that the Conservancy adopt the following findings:

“Based on the accompanying staff report and attached exhibits, the State Coastal Conservancy hereby finds that:

1. The proposed project is consistent with Chapter 5.5 of Division 21 of the Public Resources Code (Section 31220).
 2. The proposed project is consistent with the Project Selection Criteria and Guidelines adopted by the Conservancy on January 24, 2001.
 3. Environmental Defense is a nonprofit organization existing under Section 501(c)(3) of the U.S. Internal Revenue Code and whose purposes are consistent with Division 21 of the Public Resources Code.
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PROJECT SUMMARY:

The proposed project involves the preparation of a concept paper and business plan for a Sustainable Fisheries Revolving Loan Fund (“Fund” or “RLF”). As envisioned, the Fund would offer loans to California fishing communities, groups and associations to assist them with a transition to more environmentally and economically sustainable fishing practices, where investment capital or loans from traditional financial institutions are not available. This would include projects that: promote the transition to gear types that have less impact on bottom habitats and reduced bycatch rates; reduce fishing capacity in overcapitalized fisheries; create sustainable seafood products that qualify for certification; or publicize and promote sustainable seafood products.

The Fisheries Revolving Loan Fund concept was developed in response to the lack of capital available for financing improvements in fishery management, processing, and marketing that could enhance both conservation and profitability, and the health of fishing communities. Conventional sources of financing have not filled this gap for several reasons, including a lack of fisheries expertise, a lack of information to evaluate risk, and regulatory change. The Fisheries Revolving Loan Fund would provide a model for investment in California’s fisheries, generate information that could be used to develop more robust analyses of cash-flow under various kinds of management regimes, produce data that could be used to assess risk and potential returns, and rationalize fishery management to stabilize the supply of seafood, all of which are essential attributes of an investment opportunity that could attract private capital.

After planning for the Fund is completed, it is anticipated that an anticipated seed investment of \$2 million could be leveraged into a much larger loan fund over several years, using public and private sources of capital, so that it could pay its own administrative costs while continuing to invest in fisheries. Smaller loan funds would probably not be sustainable, and could not revolve because most or all of their capital would be tied up in a few investments. Mechanisms like the Fisheries Revolving Loan Fund will help address the scale of available financial resources to more closely match the scale of ocean management and conservation problems. A description of community development financial institutions, including revolving loan funds and their financial structures, is provided in Exhibit 1. An example of potential fisheries revolving loan fund investments is provided in Exhibit 2.

Consistent with the interim guidelines of the California Ocean Protection Council (“Council”),

Conservancy staff presented the proposed project to the Council at its September 23, 2005 public meeting. The Council determined that the proposed project is a high priority project and authorized the Executive Officer of the Conservancy to take actions necessary to implement the project.

California Commercial Fishing – Regulatory and Economic Context

Commercial fishing has been an important part of California's history, economy and culture, and continues to supply seafood to the state, the nation, and the world. However, many fisheries have suffered from boom-and-bust cycles or steady declines in fish landings, revenue, and employment. While some fisheries have flourished, overall commercial fishing in California has experienced a severe decline over the last 30 years due to regulatory and economic changes.

Many California fisheries, such as the nearshore fisheries and urchin and crab fisheries have become increasingly constrained in recent years. The precautionary harvest control rules embodied in the Nearshore Fishery Management Plan have reduced allowable catches of live fish. Very large areas have been closed to rockfishing to help these slow-growing stocks recover. These regulatory changes have made it difficult for many fishermen to make a living, and for ports to maintain revenues needed to support fishing infrastructure. As a result of all these factors and more, the fisheries and working harbors of California have become fragile – their health linked to increasingly stringent and changing fishing regulations, declining or highly variable fish landings, and reduced revenues. These factors in turn tend to discourage new investment and new business initiatives that are related to fisheries.

Many worthy ocean research, conservation and management projects will require grants, as they cannot generate revenue. However, investments in the state's fisheries tied to changes in management and markets could generate much higher economic returns to the state, while improving the conservation performance of fisheries (e.g., better compliance with allowable catch levels, lower bycatch and waste, reduced impacts on habitats). This conclusion is based on dozens of scientific papers, the local knowledge of experienced fishermen, and empirical evidence from hundreds of fisheries.

The transition to fisheries that generate more revenue, engage in less conflict, and do more to protect ocean habitats and ecosystems will require strategic investments. The capacity to generate more revenue from fisheries as a result of management improvements presents an opportunity for creating a sustainable source of financing for fisheries management. Perhaps most importantly, smart investments in fisheries have the capacity to pay back investors, creating the foundation of a revolving fund that can attract private capital and invest in fishery after fishery. This is a way to greatly leverage a small investment by the state that would be aimed at rewarding and helping fisheries willing to transition and at proving the concept to attract private capital.

Scope of Project Work

The project work includes two principal tasks: production of a concept paper and preparation of a business plan. Through a series of meetings and review of relevant material, a concept paper

will be developed that describes the basic parameters, objectives, and desired outcomes of the loan fund. This process will establish the initial parameters for the Fund, and the final concept paper document will be used as an informational tool during the business planning process. Preparation of the concept paper will involve:

- Research and Analysis: Research pertinent California fisheries economic, biological and regulatory information, review academic literature and other fisheries models elsewhere.
- Interviews: Meet one-on-one with key constituencies to gain an understanding of competing expectations and opportunities for addressing multiple agendas through the Fund.
- Concept Development: Finalize initial concept.
- Draft Document: Draft concept paper based on results of interviews, research and discussions. Will include broad thinking of options, pros and cons of various options, and recommended next steps.
- Presentation: Present final concept to Ocean Protection Council staff and council members, Resources Agency, Coastal Conservancy, and others.

The second and final product will be a detailed business plan for launching and operating a fisheries revolving loan fund, which can be completed within 4 months, including:

- Establish Initial Broad Objectives and Impacts: Confirm the elements of the concept paper and make sure all involved parties are in basic agreement.
- Research, Reconnaissance, and Analysis: Collect and analyze all available relevant information specific to California fisheries (effort, landings, value, markets, infrastructure, etc). Enter into discussions with key players, including: state and other relevant agencies; ports and other relevant local agencies; industry (advocacy groups, fisherman, processors, off-loaders, markets); environmental groups and relevant science-based institutions; and, other special interests. The purpose of these activities is to define *strategic* opportunities that inform the business planning process going forward.
- Refine Objectives: Upon completing reconnaissance, refine initial objectives and select specific targets and desired impacts. Reconnect with key parties and get consensus for moving forward.
- Structure and Administration: Develop model that will best meet objectives. Includes: Structure; Governance; Management; Operations; Products; Expected Portfolio Profile; and Risk Tolerance.
- Financial Forecasts: Develop financial projections for operating costs and portfolio performance.
- Capitalization Strategy: Develop an initial and long-term capitalization plan.
- Implementation Plan and Timeline: Develop the critical path for implementation and associated timeline. Identify appropriate institution to administer and manage the Fund.
- Risk Analysis: Perform a risk analysis on overall plan and develop mitigation strategies.

The proposed planning project is the first phase in the effort to create a Sustainable Fisheries Revolving Loan Fund. Following the completion of the planning project, the findings will be presented and authorization will be sought to move to the next phase - capitalization, or identification and cultivation of additional investment and funding sources for the Fund.

Project Participants

Environmental Defense is a nonprofit organization existing under Section 501(c)(3) of the U.S. Internal Revenue Code that has proposed to undertake this project and is well suited to do so. Environmental Defense's primary mission and purpose is to encourage and support the maintenance and enhancement of environmental quality through scientific study and research. Environmental Defense originated the fisheries revolving loan concept and has conducted extensive research on fisheries management, with a focus on the linkage between economic incentives, financial performance, and conservation performance. Environmental Defense will work jointly with ShoreBank Enterprise Pacific on the Sustainable Fisheries Revolving Loan Fund Planning Project.

ShoreBank Enterprise Pacific is a non-profit community development financial institution that invests in people and their communities to create economic equity and a healthy environment. They have invested over \$30 million in 245 ventures throughout the Pacific Northwest over the last decade. As a coastal-based institution, they have developed extensive expertise and experience with west coast fisheries. Their successful fisheries investments have been aimed at improving both conservation and financial performance through a blend of policy expertise, knowledge of fisheries and markets, and a commitment to the triple bottom line: social equity, economic prosperity, and a healthy environment.

PROJECT FINANCING:

Coastal Conservancy	<u>\$101,300</u>
Total Project Cost	\$101,300

The expected source of Conservancy funds for this project is the FY 2005/06 appropriation to the Conservancy from the Environmental License Plate Fund. Under Public Resources Code Section 21190, these funds may generally be used for preservation and restoration of natural areas and fish and wildlife habitat and for protection of threatened and endangered animals. Consistent with that requirement, the proposed project will serve to promote sustainable practices that will reduce impacts on and preserve and restore marine habitat and the severely depleted fish and food animals within the marine environment. The FY 2005/06 Environmental License Plate Fund monies were also appropriated to the Conservancy with the specific understanding that they would be used, as proposed here, for priority ocean protection activities in connection with the Ocean Protection Council, including grants for the development of studies and plans needed for the protection and restoration of ocean resources.

CONSISTENCY WITH CONSERVANCY'S ENABLING LEGISLATION:

This project would be undertaken pursuant to Chapter 5.5 (Section 31220) of Division 21 of the Public Resources Code which allows the Conservancy to carry out projects that protect and/or restore marine habitat. Under Section 31220 of the Public Resources Code, the Conservancy may undertake projects that meet any of the objectives specified in subsection (b) of that section. Consistent with Section 31220(b), subsections 2 and 3, the proposed project will serve as a necessary step to implementing the Fund which will (1) help protect fish and wildlife habitat

within coastal and marine waters by promoting a transition to fishing practices that have lesser impact on the marine environment; and (2) reduce threats to coastal and marine fish by furthering the transition to more sustainable fishing practices. Consistent with Section 31220(a), the Conservancy has consulted with the State Water Resources Control Board in the development of this project to ensure consistency with Chapter 3 (commencing with Section 30915) of Division 20.4 of the Public Resources Code. The Department of Fish and Game has also been consulted in developing this project. As required by Section 31220(c), the project will include an evaluation component. Environmental Defense will be required to prepare and submit a project-end report with findings and proposed recommendations derived from the conceptual and business planning work. As also required by Section 31220(c), the project is consistent with adopted state and regional watershed planning as described below under “Consistency with Local Watershed Management Plan/State Water Quality Control Plan.”

CONSISTENCY WITH LOCAL WATERSHED MANAGEMENT PLAN/STATE WATER QUALITY CONTROL PLAN:

The intent of local coastal watershed management plans is to prevent water quality degradation and to protect the beneficial uses of coastal waters. Water quality control plans adopted by the State Water Resources Control Board are designed to focus resources on key issues, promote the use of sound science, and promulgate cooperative, collaborative efforts in coastal areas to protect and enhance coastal waters. As a planning project that includes coastal waters of California, the Environmental Defense’s Sustainable Fisheries Revolving Loan Fund Planning Project will involve research and planning to promote more sustainable use of coastal resources and fisheries.

For the same reasons, the proposed project is also consistent with the policies of the 2001 California Ocean Plan that states “the beneficial uses of the ocean waters of the State that shall be protected include...water contact and non-contact recreation; aesthetic enjoyment; commercial and sport fishing; ...preservation and enhancement of designated Areas of Special Biological Significance (ASBS); rare and endangered species; marine habitat; (and) fish migration.”

CONSISTENCY WITH CONSERVANCY'S STRATEGIC PLAN GOAL(S) & OBJECTIVE(S):

Consistent with **Goal 6, Objectives A & B**, the proposed project will benefit coastal marine resources through planning for a Fund that will promote a transition to more sustainable fisheries practices.

CONSISTENCY WITH CONSERVANCY'S PROJECT SELECTION CRITERIA & GUIDELINES:

The proposed project is consistent with the Conservancy's Project Selection Criteria and Guidelines adopted January 24, 2001, in the following respects:

Required Criteria

1. **Promotion of the Conservancy's statutory programs and purposes:** See the "Consistency with Conservancy's Enabling Legislation" section above.
2. **Consistency with purposes of the funding source:** See the "Project Financing" section above.
3. **Support of the public:** The project is supported by Assemblymember John Laird, harbor and port districts, non-governmental organizations, and research institutions. Letters of support are attached as Exhibit 3.
4. **Location:** Statewide, within the coastal zone and directly related to protection and restoration of coastal and marine habitat.
5. **Need:** There are currently no other funders or sources of funding available for this type of planning, nor does Environmental Defense have the funding to complete this planning process in partnership with Shorebank Enterprise Pacific without Conservancy funding.
6. **Greater-than-local interest:** The citizens of California and commercial fishers throughout the state will benefit from this project through promotion of more sustainable fishing practices and the positive effect that will have on the California coastal fisheries.

Additional Criteria

7. **Urgency:** Many fisheries and fish populations are declining rapidly. Many California fishing communities urgently need assistance such as the proposed project would provide, in order to transition to more financially and environmentally sustainable fishing practices.
8. **Resolution of more than one issue:** The proposed project would help resolve multiple problems in terms of environmental and habitat impacts from fishing, supporting state fishing communities, and resolving marine user conflicts.
11. **Innovation:** The proposed project would provide an innovative model for fisheries reform and financing of transition to more sustainable fishing practices.
12. **Readiness:** Environmental Defense and its partner Shorebank Enterprise Pacific are ready to begin conceptual and business planning for the Fund immediately.

COMPLIANCE WITH CEQA:

The proposed project is categorically exempt from review under the California Environmental Quality Act (CEQA), pursuant to 14 Cal. Code of Regulations, Section 15306 (data collection, research, and resource evaluation activities which do not result in a serious or major disturbance to an environmental resource). It is also statutorily exempt from CEQA review pursuant to 14 Cal. Code of Regulations, Section 15262 (planning studies for possible future actions). The proposed project is a planning exercise that involves information gathering and study which may lead to subsequent action which the Conservancy has not yet approved, adopted, or funded.. The proposed project will not result in disturbance to the marine environment or its wildlife and the planning project will include assessment of environmental factors. Staff will file a Notice of Exemption upon approval.